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IN THE

Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS, INC., ET AL.,

Petitioners,

v.

GROKSTER, LTD., ET AL.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF AMICUS CURIAE SHARMAN NETWORKS LIMITED IN SUPPORT OF RESPONDENTS

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INTEREST OF THE AMICUS

Sharman, a company registered in Vanuatu and with management services based in Australia and Europe, is a defendant in the action below, but is not a party to this appeal. Petitioners belatedly added Sharman to this action after summary judgment proceedings giving rise to this appeal were underway. Although Sharman did not participate in the summary judgment proceedings, Sharman will be directly affected by its outcome.*

Like Respondent, *Grokster*, Sharman licenses the "FastTrack" protocols that enable peer-to-peer communications over the internet. The FastTrack protocols were developed for a Netherlands company known as KaZaA BV (who Petitioners also sued in this action). In addition to the FastTrack communications protocols, KaZaA BV developed a graphic user interface (containing the screens that a computer user sees when searching for, downloading, and displaying files) and an installation program. Collectively, KaZaA BV called its application the "Kazaa Media Desktop" or "KMD" and made it available for downloading by computer users. KaZaA BV also developed a website that serves as a "start" page when users open the KMD application.

In January 2002, Sharman purchased selected assets from KaZaA BV, including its graphic user interface and installer applications, its website, domain name, and some server equipment. Sharman did not purchase the FastTrack protocols. Sharman understands that the FastTrack protocols are owned by a European company known as Joltid (formerly known as

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* The parties to this proceeding have filed with the Clerk of Court blanket consents to all *amicus curiae* briefs. Pursuant to Rule 37(6), *amicus curiae* states that no counsel for a party to this proceeding authored this brief in whole or in part. Counsel for *amicus curiae* Sharman Networks Limited ("Sharman") represents Sharman and LEF Interactive PTY, Ltd. in the underlying action from which this proceeding arose; however, neither are parties to the current appeal. Likewise, no person other than the *amicus curiae* made a monetary contribution to the preparation or submission of this brief.

Blastoise). Accordingly, Sharman licensed the FastTrack protocols from Joltid.

Before offering a "peer to peer" application, Sharman undertook to ensure that it achieved its business objectives lawfully, fully respecting the intellectual property rights of others. After completing the asset purchase and licensing the FastTrack protocols, Sharman shut down the web site and ceased offering the KMD application. During the shutdown period, Sharman consulted with legal counsel, and cleansed the application and web site of any content that could arguably promote infringing activity. Sharman further rewrote the "Terms of Use" for the KMD application, prohibiting copyright infringement and obligating KMD users to respect the legal rights of content owners. Finally, Sharman cancelled contracts with third-parties, including advertisers, that could be perceived as promoting or encouraging infringement. When Sharman resumed operations, it offered a demonstrably different KMD and website, one that actively discouraged infringing behavior. Sharman also integrated technology that enabled the KMD to deliver digitally protected, rights managed content to users of the KMD application, Sharman also entered into a joint enterprise with Altnet, Inc., for distributing licensed, secure content through the KMD application. (See Brief of Amicus Curiae Altnet, Inc.). Sharman, together with Altnet, heavily promoted legal use of peer-to-peer technology.

Sharman did not cease in these efforts to promote legitimate uses of peer-to-peer technology. Since its inception, Sharman has continued to revise and update its KMD application. Among other things, Sharman provided features that enable users to promote their own content for peer-to-peer exchange. Promoting noninfringing uses of KMD did not turn users away. To the contrary, Sharman's KMD application became the most downloaded application ever. Despite Sharman's efforts to form a business based on legal uses of peer-to-peer technology, Sharman has been dragged into litigation half way around the

world and subjected to unfounded charges—ironically from Hollywood—ranging from piracy to smut peddling.

Arguing that the district court failed to apply the law of secondary copyright liability, Petitioners asked the Ninth Circuit Court of Appeals to reverse the grant of summary judgment. Yet, in granting summary judgment to Respondents, the district court not only applied the law of the Ninth Circuit—including the *Sony* and *Napster* decisions—it applied a standard for secondary liability that is consistent with international copyright principles. Unsatisfied with the Ninth Circuit's affirmation of district court ruling and its reiteration of this Court's seminal ruling in *Sony*, the Petitioners and their supporters now seek to have this Court effectively reverse *Sony*.

Sharman relied on existing standards for secondary liability as set forth by this Court more than twenty years ago in *Sony* and as applied by the Ninth Circuit in *Napster* when it (i) decided to enter the business of distributing peer-to-peer software; (ii) revised the KMD application and its web site; and (iii) established conduct requirements for its advertisers. Sharman continues to rely on those standards in further developing its business and improving peer-to-peer technology. Those standards for secondary copyright infringement should not be extended—as Petitioners advocate—in a way that makes technology providers responsible for any illegal uses of their technology simply because they "know" some users infringe, or because they generate revenue irrespective of use. To do so would place the law of secondary copyright infringement well beyond other tort concepts of secondary liability and would substitute judicial lawmaking for legislative enactments that have guided the development of United States and international copyright law for decades.

SUMMARY OF ARGUMENT

This brief is primarily intended to deal with certain incorrect and even misleading propositions put forward by the Amicus International Rights Owners ("IRO") in their brief in support of the Petitioners, which expresses concerns about the alleged international legal implications of the decision below under appeal, namely the Ninth Circuit's decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F. 3d 1154 (9th Cir. 2004) ("*Grokster*").

The IRO's entire argument rests on a flawed premise. It contends that because international treaties require that the United States provide "effective action" against infringement of copyright laws, such treaties necessarily require that providers of dual use technologies be held secondarily liable for the infringing acts of third party users of those technologies, even where the technologies are capable of substantial noninfringing uses and despite the fact that the technology vendor has no control over those third party users. This is simply wrong. Nothing in the international treaties, their supporting documents, or the case law arising from them supports any interpretation of the vague procedural reference to "effective action" that would require a drastic and unprecedented change in substantive United States law. To the contrary, there is no international obligation for the United States to adopt secondary liability at all, much less a form of secondary liability with the particular features that would result in a reversal of the Ninth Circuit's decision here. Indeed, were such an obligation present in international law, the United States would already be out of compliance because of the *Sony* case.[2] The treaty requirement that a country

[1] Brief of Amicus Curiae International Rights Owners Supporting Petitioners ("IRO Brief").

[2] By erroneously suggesting that the Ninth Circuit's ruling in *Grokster* somehow puts the United States into a state of non-compliance with international law and incongruously suggesting that this Court should attempt to set a precedent for courts in other countries, the IRO (Cont'd)

provide "effective action against any act of infringement of intellectual property rights" has nothing to do with substantive obligations. It is procedural only, and by any measure of international norms, the United States not only provides foreign interests with effective enforcement procedures and mechanisms, but gives them significant advantages in this respect over American copyright owners.

The Amicus Sharman will show not only that the IRO's positions are incorrect and misleading, but will affirmatively demonstrate that:

A. There is no requirement under international law to impose any specific form or nature of secondary copyright liability;

B. In fact, the state of American law post *Sony*, *Napster* and *Grokster* is more favorable to copyright owners with respect to secondary copyright liability than other comparable jurisdictions, irrespective of international law. America's laws dealing with enforcement by foreign nationals are more than adequate to meet any provisions of international law cited by the IRO. In fact, American laws confer useful advantages to foreign parties as compared to domestic interests in copyright litigation; and,

C. In any event, the IRO misapprehends the fundamental role of this Court. The IRO's belief that this Court should concern itself with trade policy, diplomacy, the raising of international norms in America's interest, and the setting of precedents for foreign jurisprudence not only goes well beyond the mandate of even this Court, it usurps the role of Congress and has no constitutional underpinnings.

(Cont'd)
is in reality seeking to overturn this Court's seminal holding in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("*Sony*) with respect to its finding that the provider of a product that is capable of substantial noninfringing uses cannot be found liable for contributory or vicarious liability, i.e. on the basis of secondary copyright liability.

ARGUMENT

I. THERE ARE NO PROVISIONS IN INTERNATIONAL LAW THAT DEAL DIRECTLY OR INDIRECTLY WITH SECONDARY LIABILITY FOR COPYRIGHT INFRINGEMENT

In essence, IRO argues that the United States has somehow fallen into a state of non-compliance with its international legal obligations as a result of the *Grokster* decision. This is true, we are told, because the *Grokster* decision stopped short of imposing secondary liability upon a party that provided software which is capable of and indeed being put to substantial noninfringing uses but which is admittedly also being used for infringing purposes. Although the IRO avoids saying so, it shares the Petitioners' intention to overturn the *Sony* decision upon which the *Grokster* decision correctly relies. Although there are many interpretations of what is the central finding of this Court in *Sony*, the Amicus Sharman agrees with the view taken in an influential and authoritative United States Government report that "[t]he Court determined that the key question was whether the videocassette recorder was 'capable of commercially significant noninfringing uses.'"[3] This is the key finding that Petitioners and their supporters wish to overturn, along with the related statement that "[T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."[4]

It is correct that this holding does qualify the reach of secondary liability under American copyright law. However, there is nothing in any of the applicable treaties dealing with copyright law that imposes specific requirements to implement

[3] Bruce Lehman, *Intellectual Property And The National Information Infrastructure: The Report Of The Working Group On Intellectual Property Rights*, Department of Commerce 112 (1995) (the "NII White Paper") citing 464 U.S. 417 at 442.

[4] 464 U.S. at 442.

secondary liability or that even deal with secondary liability, either directly or indirectly.

The only international treaties that could conceivably be relevant to American obligations in respect of the IRO's propositions are the Berne Convention (1971),[5] the 1994 WTO TRIPS Agreement,[6] and the 1996 World Intellectual Property ("WIPO") Treaties.[7] None of these treaties deal explicitly or even implicitly with the concept of secondary liability. This is presumably because, as will be demonstrated below, there is no pattern or consistency as to how secondary copyright liability is treated in national laws, even amongst America's major trading partners such as the EU (particularly the U.K. and The Netherlands), Canada and Australia.

Indeed, the only specific citation of a treaty provision relied upon by the IRO is that of Article 41.1 of the TRIPS[8] agreement, which deals purely with enforcement and procedural issues and does not deal with substantive obligations.

> Article 41.1 of TRIPS provides in whole as follows:
>
> Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to **permit effective action against any act of infringement of intellectual property rights covered by this Agreement**, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures

[5] Berne Convention for the Protection of Literary and Artistic Works (1971) available at *http://wipo.int/treaties/en/index.jsp*.

[6] Agreement on Trade Related Aspects of Intellectual Property Rights, WTO Agreement (1994) Annex IC.

[7] WIPO Copyright Treaty (1996) and WIPO Performances and Phonograms Treaty (1996) available at *http://wipo.int/treaties/en/index.jsp*.

[8] TRIPS is the universally used acronym for the Agreement of Trade-Related Aspects of Intellectual Property Rights, which is Annex 1C to the Marrakesh Agreement Establishing the World Trade Organization, signed on April 15, 1994. Available at *http://www.wto.org/english/docs_e/legal_e/27-trips.pdf*.

> shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse. (Emphasis added).

It is clear Article 41.1 deals only with enforcement procedures. This article cannot reasonably be leveraged into one mandating any substantive norms, much less the result sought by the IRO.

Article 41.1 of TRIPS is the first provision in the chapter of the treaty entitled "Enforcement of Intellectual Property Rights," which is precisely what the article addresses. It is a procedural article that deals with requirements such as the necessity that:

- enforcement mechanisms be fair and equitable
- decisions be in writing;
- decisions be based only upon evidence in respect of which there has been an opportunity to be heard;
- preventative measures equivalent to injunctions be available; and,
- there be appeal mechanisms.

The section deals solely with basic administrative and judicial aspects of the enforcement of civil and criminal laws. These procedural matters are taken for granted in most developed countries but have not always been in place in developing countries where sound legal infrastructures have not always been assured. The article was particularly important with respect to certain developing countries where the administrative and judicial mechanisms in place were inadequate to deal with pirates and counterfeiters. The section "insists on the effectiveness of action."[9] It does not even remotely relate to secondary or even primary liability. It is also a provision of general application dealing with enforcement aspects of all of intellectual property law, and not solely those of copyright.

Other than the foregoing reference to Article 41.1 of TRIPS, which is irrelevant to the present case, the IRO brief in fact

[9] Daniel Gervais. *The TRIPS Agreement: Drafting History and Analysis* 287 (2d ed. 2003).

cites no specific provision of any treaty in respect of which the United States is allegedly materially non-compliant. This is undoubtedly because there simply is no requirement anywhere in international law for any country to impose secondary liability for copyright infringement.

The IRO cites one settled dispute between the United States and Greece concerning Article 41.1 of TRIPS. However, examination of the Notification of Mutually Agreed Solution confirms that the matter appears involve routine "television piracy." The meager record and the fact that the matter was settled suggests that this is not a useful precedent for any purpose other than to confirm the Amicus Sharman's characterization of Article 41.1 of TRIPS, namely that it is concerned solely with enforcement, administrative and procedural matters.[10]

A possible source of confusion on the part of the IRO with respect to its suggestion that secondary liability is dealt with in international law may arise from the use of the term "authorize" and its cognate "authorization,"[11] primarily in the 1996 WIPO Treaties and the TRIPS agreement. The term "authorize" is never used in treaty text or parlance in any sense that conflates with the doctrine of secondary copyright liability. Indeed, in international copyright law, the term "authorize" means no more than to give consent, as opposed to prohibiting an activity. In fact, it is used in the sense of direct or primary liability as found in 17 U.S.C. § 106, e.g. that the copyright owner has "the exclusive right(s) to ... reproduce. . . ."[12]

For example, WIPO, in its authoritative WIPO Glossary, officially defines "authorization" as:

[10] *GREECE—enforcement of intellectual property rights for motion pictures and television programs Notification of Mutually Agreed Solution* WT/DS125/2 IP/D/14/Add.1 26 March 2001.

[11] Or "authorise" and "authorisation" as they are sometimes spelled.

[12] The term "authorize" is used in 17 U.S.C. § 106 to signify and codify secondary liability in somewhat the same sense as it is used in certain foreign statutes, but with material substantive differences as will be discussed below.

> The permission ("consent") given in the case of the use of a work by the author or other owner of the copyright to another person to use the work in a definite manner and under specific conditions. The right of authors to authorize the use of the work constitutes the practical essence of copyright, enabling the author to exploit the work. The authorization should be requested in advance; its acquisition constitutes an agreement. In certain cases, international conventions allow the replacement of such agreements by compulsory licenses. The use of performances, phonograms and broadcasts is likewise subject to authorization when the law provides for protection of producers of performers, producers of phonograms and broadcasting organizations.[13]

The term "authorize" is used in the 1996 WIPO treaties, to which the IRO refers, consistent with the Glossary meaning. It is clear that the term is used in the sense of giving *permission* to do something that only the rights owner is entitled to do. For example, the authoritative treatise on the 1996 WIPO treaties indicates that Article 10 of the WIPO Performances and Phonograms Treaty ("WPPT") which provides to sound recording producers "the exclusive right of authorizing the direct or indirect reproduction of their phonograms" tracks the language of the Rome Convention and Article 14.2 of TRIPS, both of which provide as follows: "Producers of phonograms shall enjoy the right to *authorize or prohibit* the direct or indirect reproduction of their phonograms."[14] (emphasis added). Even at its general and abstract level in terms of discussion of the history and background of the 1996 treaties, it is clear that the term "authorize" and its cognates are used in the context of

[13] *WIPO Glossary of Terms of the Law of the Law of Copyright and Neighboring Rights* 18 (1980).

[14] Mihály Ficsor, *The Law of Copyright and the Internet; The 1996 WIPO Treaties,Their Interpretation and Implementation* 631 (2002).

granting permission to do a specific act with respect to a specific work.[15]

The IRO Amicus brief also refers[16] to the "three step" test, which is part of the Berne Convention[17] and has been incorporated into the TRIPS Agreement and the 1996 WIPO treaties. Because there are no positive international treaty provisions dealing directly or indirectly with secondary liability for copyright infringement, this reference is particularly out of place and inappropriate.

The "three step test" is a doctrine that allows for exceptions or limitations to positive rights created by the treaties "in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author."[18] However, this reference is misleading insofar as the IRO Amicus Brief suggests that the United States does not comply with international law because the three step test applies only in respect of a positively established specific right, such as the reproduction or performance right. It is not a standalone doctrine. It does not apply in any general way that speaks to the overall effectiveness of a country's laws. The test as now found in Article 13 of TRIPS applies the original exception found in Article 9(2) of the Berne Convention (1971) to all exclusive rights in literature and artistic works, not only the reproduction right, which was the case in Berne.[19]

For example, the United States enacted the *Fairness in Music Licensing Act* in 1998 which eliminated the requirement for payment for the performance right in bars and restaurants under 3,750 square feet in size. This was a violation of the rights

[15] *Id.* at 206.

[16] IRO Brief at 9

[17] Berne Convention (1971) Article 9.

[18] As in Article 9 of the Berne Convention.

[19] Paul Goldstein, *International Copyright: Principles, Law and Practice* § 5.5 at 294 (2001).

of foreign copyright owners clearly enunciated in and required by Articles 11bis(1)(iii) and 11(1)(ii) of the Berne Convention (1971), as incorporated into the TRIPS Agreement, by Article 9.1 of that Agreement and could not be excused by application of the three step test as set forth in Article 13 of TRIPS. There was a successful challenge by the European Union ("EU") brought in respect of the failure of American law to recognize the requirement to ensure performance rights payments to European composers.[20] On the other hand, in the present instance, there is simply no treaty right (i.e. of secondary liability) that can be violated.

Thus, there is simply no basis upon which it can be asserted that international law requires the imposition of secondary liability of any kind under domestic American copyright law. The more detailed and disparate substantive meaning of the term "authorize" in various national jurisdictions will be discussed below.

Accordingly, there is no basis to suggest that American law somehow is non-compliant with international law in respect of the issue of secondary liability. In any event, even it there were a relevant international legal obligation, the IRO concedes or at least does not dispute that the relevant treaties are not self-executing and that they cannot rely upon the direct effect doctrine.[21] Moreover, one leading treatise author has concluded that Congress left "no doubt"[22] that the Berne Convention is not self-executing. Another states that "In sum, therefore, the executive and legislative branches of the government have declared, in the strongest terms, that the Berne Convention is executory (i.e., nonself-executing)"[23] and that there can be no

[20] WT/DS160/R United States – Section 110(5) Of The U.S. Copyright Act (June 15, 2000).

[21] IRO Brief, p. 10.

[22] Paul Goldstein, *International Copyright: Principles, Law and Practice §2.1 at 15.*

[23] Melville B. Nimmer and David Nimmer, 1 *Nimmer on Copyright* §1.12 [A] (2003).

cause of action based on the Uruguay Round (i.e. TRIPS) Agreement.[24] Nor are the 1996 WIPO Treaties self-executing.[25]

II. CURRENT AMERICAN LAW ON SECONDARY COPYRIGHT LIABILITY IS GENERALLY MORE FAVORABLE IN BOTH SUBSTANTIVE AND ENFORCEMENT ASPECTS THAN FOREIGN LAW

A. The Substantive Law in *Sony/Napster/Grokster* provides equal or greater protection to foreign copyright owners than can be found in other major jurisdictions, wherein there is no consistency

To date, the world's leading decision in support of the Petitioners' battle against peer to peer file sharing technology has come from the Ninth Circuit in the *Napster* decision, which relied on the *Sony* doctrine of secondary liability. *Grokster* is entirely consistent with *Napster*; the difference in result was due to the difference in the facts. There is no reason to depart from or go beyond this basis for the law in America. Foreign interests will find it more than adequate and very effective in meeting their legitimate needs.

It is abundantly evident that American courts have been quick, capable and effective in responding to the need to impose secondary liability when this is "manifestly just," in the words of *Sony*, i.e. "where the 'contributory' infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner."[26] In the Ninth Circuit, there was no delay or hesitation in shutting down *Napster* where is was clear that the defendant had the requisite degree of control and the imposition of secondary liability was hence "just." *A&M RECORDS, INC. v. Napster, Inc.*, 239 F.3d 1004 at 1023 ("*Napster*"). This result in

[24] *Id.* at §1.12 [D].

[25] Jeffery P. Cunard et al., *WIPO Treaties Raise International Copyright Norms*, N.Y. L.J., Mar. 10, 1997, at S4.

[26] 464 U.S. 417 at 437.

the Ninth Circuit is perfectly consistent with *Sony* and goes well beyond anything required by international law.

While the legal systems of many countries are capable of dealing with the issue of secondary liability in copyright law, there is no consistent pattern in terms of doctrine or even result as to how this is done. The word "authorize" is not used in international law in any sense relevant to the IRO's brief or to the issues at hand, particularly regarding secondary infringement. Moreover, as will be seen below, the word "authorize" is used in one sense in the United States, in another very different sense in the international treaties and the EU, and in yet a third very different sense in the Commonwealth countries (wherein the term has yielded conflicting results at the highest judicial level).

In the American context, the term "authorize" occurs in 17 U.S.C. § 106 and it is clear that: "The inclusion of the right 'to authorize' was "intended to avoid any questions as to the liability of contributory infringers"—those who do not directly exercise the copyright owner's rights, but "authorize" others to do so.[27]

It is noteworthy that American law subsumes as direct infringement much that is considered to be "secondary" elsewhere and goes beyond to have a rich judge made common law secondary liability, as exemplified in *Sony*. For example, the distribution right as found in 17 U.S.C. § 106 (3) is an exclusive right under American law that is treated as a direct or primary right. Under Canadian law, the equivalent (though much less potent) right is treated as "secondary infringement" and requires the showing of knowledge and activity "to such an extent as to affect prejudicially the owner of the copyright."[28]

Since the IRO Amicus brief focuses on the need for "effective"[29] enforcement in the United States of intellectual

[27] NII White Paper at 109.

[28] Copyright Act, R.S.C. 1985 as amended, ch. C-42, s. 27(2)(b).

[29] The IRO brief also refers to the terminology of "adequate and effective" protection. It is to be noted that this terminology is an obsolete

(Cont'd)

property rights relating to secondary liability and the membership of the IRO consists of European trade associations, it is both interesting and indeed ironic to note that there simply is no law as to secondary liability at the EU level. The EU cannot find a common internal denominator as to the issue of secondary copyright liability in this context, either on a substantive or procedural doctrinal basis.

The EU recently undertook a major effort to harmonize European copyright law as it relates to the Internet amongst its member states, and to implement the 1996 WIPO treaties. The result was an important Directive finalized in 2001. This Directive, which like all Directives is mandatory on member states, does not touch on secondary copyright liability in any way. Its use of the term "authorize" and its cognates is completely consistent with the use of the term in the WIPO treaties and the WIPO Glossary as described above. It is mentioned only in the context of giving permission in respect of specific primary activity, namely the reproduction right, communication right (including the "making available" right) and distribution right.[30] It is evident that a major Directive such as this from the EU reflects considerable effort to find a common denominator on important copyright issues. Directives in the EU are binding on member states. It is also evident that the EU represents a proxy for the possibility of any common denominator between major common law and civil law jurisdictions, and the apparent absence of any such consensus in the EU speaks volumes.

Moreover, the EU has issued an even more recent Directive on the "Enforcement of Intellectual Property Rights," which deals in detail with such issues as evidence, the preservation of

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phrase in international circles deriving from the now irrelevant Universal Copyright Convention. IRO Brief at 5.

[30] Directive 2001/29/Ec Of The European Parliament And Of The Council Of 22 May 2001 On The Harmonisation Of Certain Aspects Of Copyright And Related Rights In The Information Society, Articles 2,3, and 4.

evidence, obtaining of information, interlocutory and permanent injunctive relief, damages, and other measures aimed at providing '*effective* means of enforcing intellectual property rights."[31] (Emphasis added). This important Directive, which repeatedly recites the intention to fulfill the provisions of TRIPS, as well as the Berne Convention, [32] is also completely silent on the issue of secondary copyright liability. In fact, this Directive deals with very much the same subject matter as Article 41.1 of TRIPS mentioned above,[33] upon which the IRO places so much reliance.

An examination of the law of individual major developed country jurisdictions also indicates that there is no consistent pattern concerning secondary liability in copyright law. It also shows that American law as stated by this Court in *Sony* and as recently applied by the Ninth Circuit in *Grokster* is at least as favorable to copyright owners as in any major jurisdiction.

The UK law on secondary liability is stated by *Copinger and Skone James* as follows:

> Authorisation means the grant or purported grant, which may be expressed or implied, of the right to do the act complained of, whether the intention is that grantee should do the act complained of on his own account, or only on account of the grantor. An expression which has often been used as equivalent to the word "authorize" is "sanction, approve or countenance", but this must be treated with caution, particularly insofar as the word "countenance" is equivalent to the word "condone". Thus in general an authorization "can only come from someone having or purporting to have authority, and an act is not authorized by someone who merely enable or possibly

[31] Directive 2004/48/Ec Of The European Parliament And Of The Council Of 29 April 2004 On The Enforcement Of Intellectual Property Rights L 195/16 EN Official Journal of the European Union 2.6.2004.

[32] *Id.* Recitals, paras. 4,5, 6, & 7.

[33] As generally cross referenced in the fifth recital of the Directive.

> assists or even encourages another to do that act but does not purport to have an authority which he can grant to justify the doing of the act". Per Whitford J. in *CBS v. Ames Records and Tapes Ltd.* [1982] Ch. 91 at 106, approved in *Amstrad Consumer Electronics plc v. British Phonographic Industry Ltd.* [1986] F.S.R. 159 at 211, C.A. and in *CBS Songs v. Amstrad plc* [1988] A.C. 1013 at 1055, H.L. (footnotes omitted).[34]

The UK case mentioned above of *CBS v. Amstrad* involved a lawsuit against the manufacturer of a dual cassette player/ recorder marketed for domestic that featured high speed copying facilities and was advertised as being suitable for making copies "from your favorite cassette." The House of Lords refused to find liability, mainly on the basis of the lack of control on the part of defendant over the activities of its customers.[35] In the case mentioned of *CBS v. Ames*, the operator of a shop that rented sound recordings and sold blank tapes was held not to be liable even though it knew that its customers would be likely to copy them at home. Whitford, J. refused to find liability for authorization noting that "The proper approach, consistent with all the United Kingdom cases, is that there is no authorisation where, as in the present case, the defendant is in no position to control the conduct of the person alleged to have been authorized."[36] Thus, the element of "control" is crucial in the UK, as it is in *Grokster*, *Napster* and *Sony*.

In Canada, the highest court, the Supreme Court of Canada has recently issued two landmark decisions that bear on secondary liability. In a 2003 decision involving alleged copyright infringement by authorization in the case where a law library provided self service photocopiers for the use of its

[34] Kevin Garnett, Jonathan James and Gillian Davies, I *Copinger and Skone James on Copyright* 470 (1999) (hereinafter "*Copinger and Skone James*").

[35] *CBS Songs v. Amstrad plc* [1988] A.C. 1013, 1054.

[36] *CBS v. Ames Records and Tapes Ltd.* [1982] Ch. 91 at 106.

patrons and it was established that some infringement was taking place, the Court refused to find liability:

> As noted, a person does not authorize copyright infringement by authorizing the mere use of equipment (such as photocopiers) that could be used to infringe copyright. In fact, courts should presume that a person who authorizes an activity does so only so far as it is in accordance with the law.
>
> . . .
>
> Finally, even if there were evidence of the photocopiers having been used to infringe copyright, the Law Society lacks sufficient control over the Great Library's patrons to permit the conclusion that it sanctioned, approved or countenanced the infringement. The Law Society and Great Library patrons are not in a master-servant or employer-employee relationship such that the Law Society can be said *to exercise control over the patrons who might commit infringement*: see, for example, *De Tervagne, supra. Nor does the Law Society exercise control over which works the patrons choose to copy, the patron's purposes for copying or the photocopiers themselves.*[37] (Emphasis added).

A few months later, the Supreme Court of Canada delivered judgment in a case that involved the general issue of the liability of Internet service providers (ISPs) for music available on or using the facilities of the Internet. In its decision which effectively eliminated liability for ISPs that function merely as a "conduit" of content, the Court commented on and extended the foregoing statement (explicitly emphasizing the words relating to "control") and pronounced as follows: "The knowledge that someone *might* be using neutral technology to violate copyright (as with the photocopier in the *CCH* case) is not necessarily sufficient to constitute authorization, which requires a demonstration that the defendant did '[g]ive approval

[37] *CCH Canadian Ltd. v. Law Society of Upper Canada*, 2004 SCC 13 at para. 38, 43-45.

to; sanction, permit; favour, encourage'" (*CCH*, para. 38) the infringing conduct.[38]

In any event, at the present time the Canadian Federal Court has indicated that downloading and even sharing of files do not constitute copyright infringement in Canada.[39] Accordingly, since there can be no authorization "unless the act authorized is itself an infringement,"[40] it would seem clear that there can be no secondary liability by way of "authorization" for the provision of P2P software in Canada.

By contrast, in Australia, the High Court (counterpart to this Court) in 1976 utilized the authorization doctrine to impose copyright liability on a university library that provided self service photocopiers to its patrons.[41] However, that decision has been criticized and is doubtful law in the UK.[42] It has been expressly disavowed by the Supreme Court of Canada on the basis that the Australian High Court's "approach to authorization shifts the balance in copyright too far in favour of the owner's rights and unnecessarily interferes with the proper use of copyrighted works for the good of society as a whole."[43] According to *Copinger and Skone James*: "In the case of a photocopier made available by a library or photocopy shop, a finding of authorisation would require very clear evidence that the supplier gave the copier permission to copy the particular work, rather than merely to use the photocopier."[44]

[38] *Society of Composers, Authors and Music Publishers of Canada v. Canadian Association of Internet Providers* 2004 SCC 45 at paras. 122,127.

[39] *BMG Canada Inc. et al. v. John Doe et al.*, 2004 FC 488, paras. 25, 28, 42. This is an interlocutory ruling, which has been appealed. The appeal is to be heard on April 20, 2005.

[40] *Copinger and Skone James* 474.

[41] *Moorhouse v. University of New South Wales* [1976] R.P.C. 151.

[42] David Vaver, Copyright Law 142 (2000).

[43] *See CCH v. LSUC, supra*, at para. 41.

[44] *Copinger and Skone James* 474.

In the Netherlands, the Dutch Supreme Court has upheld the decision of the Court of Appeal, which held that KaZaA was not liable for copyright infringement on the basis that an infringing acts are performed by users of the program and not by KaZaA, that the program is not used exclusively for downloading copyrighted works, and that providing the means for publication or reproduction of copyrighted works is not an act of publication or reproduction in its own right.[45]

Thus, it can be seen that, regardless of the absence of treaty law on the subject of secondary liability, American substantive law as stated by this Court in *Sony*, *Napster*, and *Grokster* is already at least as favorable to rights owners and even more explicit than the law in most if not all other developed jurisdictions.

B. Foreign Rights Owners Have Access To Equal Or Better Enforcement Mechanisms In U.S. Courts Than Their American Counterparts

The IRO brief expresses concern as to whether international rights owners will be able to effectively enforce their rights in the United States.[46] This is a disingenuous argument at best because it conflates procedural concerns with substantive domestic law and then, in turn, with international treaty obligations. But the argument is more than disingenuous. It is incorrect and misleading.

The short answer is that foreign copyright owners have better recourse in American Courts to effective enforcement than is available to their American counterparts, and they have access through their governments to powerful trade remedies that are not in fact available to American copyright owners.

As the IRO notes, international copyright owners benefit from the provisions of 17 U.S.C. § 104. They also benefit from

[45] KaZaA BV v Burma/Sterma, Amsterdam Court of Appeal, 2002, as upheld by Dutch Supreme Court. Unofficial reports in translation are available at: *http://www.solv.nl/index.php?blz=6&nid=2&lang=en*.

[46] IRO Brief, p. 15 ff.

the national treatment provisions of the Berne (1971), TRIPS and the 1996 WIPO treaties, all of which entail essentially that foreign interests are to be treated at least well in respect of substantive and procedural rights as domestic interests.[47]

As seen above, foreign interests are likely to enjoy a higher substantive level of protection in respect of obtaining relief based upon secondary liability than in other major jurisdictions.

In terms of effective procedures, foreign interests actually enjoy a significant advantage over American copyright owners. They do not need to register their copyrights as a prerequisite to enforcement by litigation.[48] This is an important advantage in litigation of the nature currently underway against thousands of individuals in the USA, where it is alleged that many of them have illegally downloaded thousands of songs. The saving of time and expense required to obtain copyright registrations for hundreds or even thousands of individual songs is a very significant advantage over American copyright owners in litigation against many individuals who clearly would each be downloading a different list of songs.

It is very clear from countless press reports that the American recording industry has successfully used the current legal provisions to extract settlements from large numbers of individuals. American procedural law and practices regarding enforcement are among the best anywhere—as demonstrated in the relative ease of enforcement against individuals here compared to other countries. The RIAA regularly sues hundreds of individuals at a time.[49] There is a well-established mechanism in place to generate substantial settlements averaging $4,000 in these lawsuits.[50]

[47] Paul Goldstein, *International Copyright: Principles, Law and Practice* §3.2 (2001) at 72-75.

[48] 17 U.S.C. § 411(a).

[49] *See http://www.riaa.com/news/newsletter/012405.asp.*

[50] A. Tran, *Woman Silenced by Music Mafia*, The Daily Texan, 2/4/05, *http://www.dailytexanonline.com/news/2005/02/04/Opinion/Woman.Silenced.By.Music.Mafia-852298.shtml.*

According to Sharman's belief, none of these lawsuits has ever proceeded to trial.

This situation may be compared to that of America's neighbor and major trading partner, Canada, where the record industry has been unsuccessful to date in its litigation efforts against individual downloaders and file sharers based upon major differences in substantive law and procedural safeguards to the privacy of individuals. Subject to reversal on appeal, the Canadian Federal Court has essentially held that downloading and even file sharing are immunized from liability by the private copying levy scheme in Canada, and that Canadian privacy law protects the identity of individuals sued to date on the basis of the evidence filed.[51]

Foreign interests have full recourse on the same basis as American copyright owners to the statutory damages provisions found in 17 U.S.C. § 504(c), which allow for a *minimum* recovery of $750 for each infringing song. These are believed to be the highest statutory minimum damage provisions in the world. Important jurisdictions such as the UK do not even have any statutory minimum damage provisions. There is no requirement for statutory minimum damages in any treaty. These provisions play an important role in litigation against downloaders and are already viewed as excessive at their minimum level.[52]

C. Foreign Rights Owners Are Additionally Free To Challenge Any Alleged Inadequacy Of American Law Through The Dispute Mechanisms Of International Treaty Law

Finally, in terms of access to enforcement, foreign interests have an enormous advantage that is unavailable to American interests. They are free to enlist the aid of their respective

[51] *BMG Canada Inc. et al. v. John Doe et al.*, 2004 FC 488, paras. 25, 28, 42

[52] Mark Lemley and Anthony Reese, *Reducing Copyright Infringements Without Restricting Innovation, 56 Stanford Law Review 1345 at 1396-1397 2004).*

governments to bring a trade challenge against the United States if they are of the opinion that American law is in any way deficient according the TRIPS agreement. This was successfully done by European rights holders through the aegis of the EU with rapid and effective results in the above mentioned decision in which the American provisions of 17 U.S.C. § 110(5) were found to be non-compliant. A substantial monetary payment[53] has been enforced along with a requirement that the United States bring its law into compliance.[54] It is to be noted that, although the United States has been the most frequent complainant in TRIPS cases, the first copyright case to produce a panel report was in fact this very case[55] and it went against the United States. As noted above, the IRO represents European trade associations who are undoubtedly well aware that they can ask the EU to bring another dispute to the WTO against the United States if warranted. In this case, it would not be warranted because there is no treaty provision that has been violated.

The use of the WTO at the behest of member states to raise levels of intellectual property should, of course, be well known to the music industry if for no other reason than the successful challenge relating to § 110(5) of the U.S. Copyright Act. Moreover, the RIAA, which is a key member of IFPI (itself a leading member of the IRO), has recently announced that it is taking steps through the United States Government toward bringing the WTO mechanisms into play against China.[56]

It is to be noted that if any member state of the WTO was

[53] United States – Section 110(5) Of The U.S. Copyright Act Recourse To Arbitration Under Article 25 Of The DSU WT/DS160/ ARB25/1 9 November 2001 Award of the Arbitrators §5.1.

[54] Graeme B. Dinwoodie, *The Development and Incorporation of International Norms in the Formation of Copyright Law* 62 Ohio St. L.J. 733 at 763.

[55] *Id.* at 748.

[56] *RIAA And Other Intellectual Property Groups Seek World Trade Organization Help In Cracking Down On Piracy In China* (February 9, 2005) *http://www.riaa.com/news/newsletter/020905.asp.*

of the opinion that American law since *Sony* is non-compliant, they have yet to bring any action using the dispute settlement mechanisms available through the World Trade Organization. They have had almost a decade to do so.

III. THIS COURT IS BEING ASKED BOTH OVERTURN *SONY* AND TO USURP THE ROLE OF CONGRESS AND THE EXECUTIVE BRANCH

The role of this Court is to interpret and apply the Copyright Act, which may entail evolutionary development of common law doctrines that relate to application of the statute. However, it is not for this Court to amend or extend copyright legislation. The doctrine of "authorization" is one of which Congress is seized. The interests of American IP owners, trade policy, the legislation and jurisprudence in foreign countries are solely the role of the Executive Branch and Congress. The IRO has raised no justiciable issues with which this Court need or should be concerned.

The Petitioners and their supporters are attempting to persuade this Court not only to overturn the seminal decision in *Sony*, which has stood the test of time very well, but to effectively enact new law that goes well beyond that in the statute.

This Court spoke eloquently of its role and that of Congress when, 20 years ago, it stated in *Sony*:

> The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. *See, e.g., Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968); *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908); *Williams & Wilkins Co. v. United States*, 203 Ct. Cl. 74, 487 F.2d 1345 (1973), aff'd by an equally divided Court, 420 U.S. 376 (1975). Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the

> constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.[57]

It may well be that Congress will take a fresh look at this new technology, just as it so often has examined other innovations in the past. But it is not our job to apply laws that have not yet been written. Applying the copyright statute, as it now reads, to the facts as they have been developed in this case, the judgment of the Court of Appeals must be reversed.[58]

As this Court said in *Sony*, it is the role of Congress to change the result of *Sony*. Congress is ready, willing and able to change the law of copyright when necessary and appropriate. Indeed, it has done so on approximately 50 occasions since the last omnibus revision in 1976. Most of the recent amendments have dealt promptly and effectively with problems raised by digital technology. For example:

- No Electronic Theft (NET) Act, Pub. L. No. 105-147, enacted December 16, 1997.
- Digital Millennium Copyright Act, Pub. L. No. 105-304, enacted October 28, 1998. (This legislation implements the 1996 WIPO Treaties.
- Satellite Home Viewer Improvement Act of 1999, title I of the Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No. 106-113.
- Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, (amending chapter 5 of title 17 of the U.S. Code to increase statutory damages for copyright infringement), enacted December 9, 1999.
- Technology, Education, and Copyright Harmonization Act of 2002, Pub. L. No. 107-273

[57] 464 U.S. 417, 432.

[58] 464 U.S. 417, 456.

(relating to use of copyrighted works for distance education), enacted November 2, 2002.

- Small Webcaster Settlement Act of 2002, Pub. L. No. 107-321 (amending section 114), enacted December 4, 2002.

In the course of these amendments, Congress was not unmindful of the doctrine of secondary liability. Indeed, it showed that it was seized of it. Prof. Goldstein notes[59] that the Digital Millennium Copyright Act amendments enacted by Congress in 1998 to implement the 1996 WIPO treaties provide explicitly that § 1201 does not "enlarge or diminish vicarious or contributory liability for copyright infringement in connection with any technology, product, service, device, component, or part thereof."[60]

It is also well known that the Petitioners and their supporters were associated with the attempt to pass the "Inducing Infringement of Copyrights Act of 2004"[61] in the 108th Congress. This Bill, if enacted, would have profoundly altered the law of contributory and vicarious liability in the United States. The Amicus Sharman concedes that this is the prerogative of Congress and the Executive Branch, if this is their will, subject only to review by this Court on constitutional grounds where appropriate.

Even if it were theoretically the case that a United States Supreme Court decision (i.e. *Sony*) put the United States into a non-compliance state, the remedy is through Congress or through a trade dispute brought through the WTO in Geneva if Congress fails to act.

The IRO's concerns about the state of jurisprudence in other countries are completely misplaced, even if this Court had any role to be concerned with such an issue, which it does not. United

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[59] Goldstein, *International Copyright: Principles, Law and Practice* § 5.4.1.3 at 282 (2001).

[60] 17 U.S.C. § 1201(c)(2).

[61] *Inducing Infringement of Copyrights Act of 2004*, S. 2560.

States law on secondary copyright liability is unlikely to be of much relevance or frankly even much use or even interest in most other countries, due to the highly idiosyncratic nature of the evolution of the doctrine of secondary liability in this country and the very disparate doctrines abroad, as shown above. The IRO is unable to point to any major jurisdiction that has relied to date on American jurisprudence in such a way as to inappropriately attenuate the rights of intellectual property owners. The most dire situation that the IRO has documented relates to the submissions—merely the submissions—of a defendant's counsel in a Taiwan case now pending, wherein the counsel referred to the *Grokster* decision.[62] The mere citation by foreign lawyer of a decision that the IRO does not like is hardly a reason for this Court to reverse a landmark decision of twenty years standing that has so well withstood the test of time.

Notwithstanding all of the foregoing, there may be valid policy arguments why the United States should take a leadership role in establishing international norms for the imposition of secondary liability in copyright law. However, it cannot be overly stated that this is the sole prerogative of the Executive Branch (i.e. the USTR).[63] This is a responsibility for diplomats, politicians and trade specialists in the private and public sector. There is a very well established mechanism in place to put countries with doubtful intellectual property practices on a "Special 301 Priority Watch List,"[64] which can result in trade sanctions.[65]

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[62] IRO Brief, p. 20.

[63] American Law Institute, *Restatement 3d of the Foreign Relations Law of the U.S.* §1, Reporters Notes 2 and 3.

[64] The latest version is available at *http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_Special_301/asset_upload_file16_5995.pdf*. See also *www.iipa.com* which partially illustrates the role of the private sector in maintaining vigilance over these issues.

[65] Omnibus Trade and Competitiveness Act of 1988 §2242 ("Special 301)).

Finally, even if there were a treaty obligation with respect to secondary liability (which there is not), it is normally the role of Congress to implement any treaty achieved by Executive Branch.[66] This process involves a fundamental application of the doctrine of separation of powers. This Court has recently cautioned once again and strongly against attempts by federal courts to craft remedies for the violation of new norms of international law, and the need to avoid impinging on the Legislative and Executive Branches in managing foreign affairs.[67] It would seem that the IRO is indirectly asking this Court to do something that no Court can do, according to Professor Tribe, which is to mandate that Congress enact legislation to cure a default of America's international obligations, "for it is an axiom of our constitutional system that the courts may not order Congress to enact laws."[68]

The IRO is effectively asking this Court to ignore the separation of powers doctrine. This Court has wisely declined in *Sony* to extend domestic substantive copyright law. *A fortiori*, it should refuse to do so internationally.

CONCLUSION

There are absolutely no requirements in international law for imposition of any particular doctrine, much less any degree, of secondary liability for copyright infringement in the United States. From the standpoint of a foreign copyright owner contemplating litigation in this country, both the substantive and enforcement provisions of American law are likely to be equal or greater than in the party's own country. In any event, it is not the role of this Court either to amend U.S. copyright law or to become engaged in diplomacy and trade relations, which are the sole responsibility of the Congress and the Executive

[66] As noted above, the applicable treaties are definitely not self-executing.

[67] *United States v. Alvarez-Machain*, 124 S.Ct. 2739 at 2763 (2004).

[68] Laurence H. Tribe, 1 *American Constitutional Law* 644 (2000).

Branch. Accordingly, this Court need not and should not be concerned with any of the international issues raised by the IRO.

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